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FISCAL IMPACT STATEMENT

LS 7596 | **NOTE PREPARED:** Jan 9, 2005
BILL NUMBER: HB 1785 | **BILL AMENDED:**

SUBJECT: RTA Food and Beverage Tax.

FIRST AUTHOR: Rep. Aguilera | **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: X **GENERAL** | **IMPACT:** State & Local
DEDICATED
FEDERAL

Summary of Legislation: The bill authorizes a county that has established a regional transportation authority (RTA) to impose a 1% food and beverage tax to fund the authority. The bill restricts the use of the revenue to:

(1) providing new and improved public surface and rail transportation services; and

(2) transfers to the county airport authority.

The bill requires a local government unit in a county imposing the tax to continue its current level of financial support of public surface and rail transportation services after the tax is imposed. The bill requires the RTA board to study the feasibility of alternative funding sources.

Effective Date: July 1, 2005.

Explanation of State Expenditures: Current cost for the Department of State Revenue to administrate, audit, and collect the food and beverage tax is approximately $0.51 per $100 of revenue. The Department's current resources are sufficient to absorb the additional costs associated with this proposal.

Under the bill, the Department of Local Government Finance (DLGF) would modify the budgets, tax rates and levies for the implementation of the food and beverage tax. The provision should be able to be implemented by the DLGF within existing resources.

Explanation of State Revenues:

Explanation of Local Expenditures: *Summary:* The bill gives the fiscal body of a county that has established an RTA under IC 36-9-3-2 the option to adopt an ordinance to impose the 1% food and beverage tax. (Currently, the Lake County RTA is in existence under IC 36-9-3-2.) Upon adoption of an ordinance, the fiscal body would be required to send a certified copy of the ordinance to the Department of State Revenue.

An RTA county would receive monthly payments of the food and beverage tax from the Treasurer of State on warrants issued by the Auditor of State. Revenue from an RTA food and beverage tax received by the county from the Treasurer of State would be placed by the county auditor into a county food and beverage tax receipts fund (FBTRF).

Revenue received and placed into the FBTRF would be able to be used for the following: grants to county units for new or improved public transportation service; costs for preparation of and cost/revenue estimates for public transportation; expense necessary for determination of feasibility and practicality of public transportation; cost to purchase, lease, sublease, acquire, construct, renovate, complete, equip, and furnish any property; the cost to retain professional services related to issuance of debt obligations; payment of debt service; operation and management of property; and other administration expense of the RTA.

Money in the FBTRF would not be able to be used for tax relief or reduce the property tax levies imposed by any governmental entity. A grant that would be provided to a unit under the bill, would not count against a unit's property tax levy in a calendar year.

Money available in the FBTRF that is not required to be transferred to the Reserve Account (as explained below), after the initial 24 month period, would only be available for distributions to a commuter transportation district for capital expenditures made for *new* and improved public transportation services in the taxing county. Before such transfers are allowed, a commuter transportation district would be required to submit a written plan for review by the RTA, under which, money would be expended only for approved items in the plan.

Reserve Account: Under the bill, the RTA would be required to establish the Reserve Account within the FBTRF. For the first two twelve-month periods of the FBTRF's existence, the RTA would be required to deposit the first $2 M received in tax revenue for the first two twelve-month periods into the reserve account. The transfer amount would be reduced to $1 M per year beginning in years after the first two twelve-month periods.

In the first two twelve-month periods the RTA receives revenue under the bill, the RTA would be required to transfer $1 M from the Reserve Account to fund the airport authority established under IC 8-22-3-1.

The RTA would have the option to transfer an amount from the Reserve Account (that is not necessary to comply with the funding of the feasibility study above) to a commuter transportation district. Such transfers would be allowed for capital expenditures for new or improved public transportation service. These transfers would be allowed only in the first 24 month period of reception of tax revenue. Transfers made for capital expenditure would not be allowed to be used to replace or reduce expenditure made in the county by the commuter transportation district from other sources.

Before transfers from the Reserve Account to the commuter transportation district would occur, the commuter transportation district must submit a written plan or amended plan to the RTA for its review.

Explanation of Local Revenues: *Summary:* The imposition of a county Food and Beverage Tax in Lake

County would generate an estimated $1,522,000 in CY 2005, $6,385,000 in CY 2006, and $6,698,000 in CY 2007. The Food and Beverage Tax is an excise tax on food and beverages prepared and served for sale in the local unit imposing the tax. The tax rate would be 1% and would be collected and remitted in the same manner as the state Sales Tax.

However, under the bill, any other county that establishes an RTA under IC 36-9-3-2 would be able to adopt an RTA food and beverage tax.

Estimation Background: According to the most recent U.S. Census data, total food and beverage sales in Lake County for CY 1997 were $419,562,000. Based on this amount, the 1% food and beverage tax would have generated an additional $4,195,620 in CY 1997, or 1% of the total sales. Before projecting future revenues, this figure must be adjusted to reflect sales of prepared foods (such as those sold in supermarkets) which would be subject to the proposed tax but are not included in the U.S. Census data. In order to account for these prepared foods, an additional 10% adjustment to the $4,195,620 projection is added to establish a CY 1997 baseline of $4,615,182 for Lake County.

The average growth rate of food and beverage-related total sales in Lake County reported by the U.S. Census Bureau from CY 1992 to CY 1997 was approximately 4.53%. This rate was used to project sales of food and beverages through CY 2000. Given recent economic performance, the baseline is grown using state Sales Tax growth rates for FY 2001 (1%), FY 2002 (2%), and FY 2003 (2%) to reach a base for FY 2004. The base amount for CY 2004 is $5,819,000. Projected years from CY 2005-2007 were grown using the state Sales Tax estimated growth rates from the December 14, 2004 state revenue forecast: 5% in FY 2004, 4.6% in FY 2005 and 4.9% in FY 2006. The growth rate for FY 2006 is flat-lined at 4.9% until additional forecast information is available. These rates were applied to the CY 2004 base of $5,819,000 to project revenue from CY 2005 to CY 2007. The CY 2005 projected base is $6,087,000.

The effective date of the bill is July 1, 2005. As a result, Lake County could begin to receive revenue from food and beverage sales by October 2005. A three-month lag is applied from the effective date of the bill to account for the county to pass an ordinance and then set up the mechanisms necessary to begin receiving revenue. The actual expected impact for CY 2005 would be one-quarter of the annual projection, or $1,522,000 (1/4th of the CY 2005 complete-year estimate of $6,087,000). Complete-year collection would begin in CY 2006.

State Agencies Affected: Department of State Revenue; Department of Local Government Finance.

Local Agencies Affected: Counties that have an RTA established under IC 36-9-3-2.

Information Sources: U.S. Census Bureau; Bob Walls, Department of State Revenue.

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